

***“The Need is Clear.
The Time is Now.”***



Fiscal Year '08 Budget



Investing in Families

HEALTHCARE | EDUCATION | PENSIONS | TAX FAIRNESS



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GOVERNOR, STATE OF ILLINOIS



What are our goals?

- Provide access to guaranteed, affordable healthcare for all Illinois residents.
- Establish a new and permanent funding source for education.
- Reduce our unfunded pension liability.
- Invest in infrastructure.
- Reform the corporate tax system so that it treats all business fairly.
- Secure the state's long-term financial stability.



... WITHOUT RAISING INCOME OR SALES TAXES



The Middle Class is Getting Squeezed

- Income for middle-class families has remained stagnant or flat since 2001.



- Prices for big-ticket items – housing, health care, college education and transportation – have skyrocketed, leaving families unable to save.
- Middle-class families are borrowing record amounts of money to pay their monthly bills.
- On average, a CEO today earns 400 times more than the average worker, up from 20 times in 1960.



Rising Healthcare Costs

- Health insurance premiums for employers increased nearly 87% between 2000 and 2006.
- Today, a family looking to buy insurance on their own in the private market pays, on average, \$15,000 / year. Through an employer, that same family coverage pays approximately \$10,000 / year.
- 9.7 million insured face unpredictable costs and the prospect of losing their coverage.
- Over 1.4 million adults in Illinois are uninsured. Almost 800,000 are middle class.



Affordable Healthcare for All

- 1. Illinois Covered Choice** – Small businesses and individuals will be able to buy into guaranteed, affordable private plans.
- 2. Illinois Covered Rebate** – Middle class families with employer-provided insurance will be able to get help paying their premiums.
- 3. Illinois Covered Assist & expansion of existing programs** – Middle class families and low-income adults will be able to get coverage through healthcare program expansions and a new program to cover adults under poverty without children.
- 4. Reform the Health System** – Strengthen family coverage, better manage chronic diseases, and make the system transparent.





Illinois Covered – Everyone Will Benefit

- **Everyone in the state will benefit.** We will provide relief to all Illinois residents by reforming the healthcare system, providing stronger family coverage, creating new consumer protections and system improvements, and charting a roadmap to health for wellness and management of chronic diseases.
- **Over 1 million people and small businesses** will be able to purchase Illinois Covered *Choice*, a new guaranteed, affordable insurance product offered by the state.
- **Millions of people** will be eligible for help paying their health insurance premiums through Illinois Covered *Rebate*.
- **500,000 middle class and low-income families** will be eligible for coverage from Illinois Covered *Assist* or the *FamilyCare* expansion.



Our Kids Deserve the Best

We've made progress:

- For more than 25 years, Illinois schools were chronically neglected and consistently underfunded.
- In fact, in four different years under all three previous governors, funding for education actually went down. In Fiscal Year 1992 under Governor Edgar, funding for education decreased by \$28 million.
- In the last four years, we've increased education funding by record levels, raised standards, created preschool for all 3 and 4 year olds and cut red tape.
- But our kids deserve more.





Helping Kids Learn

Invest \$10 billion in education over the next 4 years.

- Raise the Foundation Level – more money for schools.
- Build new schools, repair and maintain existing schools.
- Help schools afford special education teachers.
- Fund after-school tutoring for underachieving students.
- Extend the school day and school year for underachieving schools.
- Fund Preschool for All so every three and four year old can attend preschool.
- And, bring full day kindergarten to every school in Illinois.



Reforming our Pension System

What is the problem?

- **Debt.** While we have contributed more funds to the state employee pension system than any other administration, the State still has a \$40 billion unfunded liability today.
- **A poor plan.** The statutorily mandated 50-year pension funding plan created by the legislature in 1995 is flawed.
 - *By design*, it underfunds the pension system each year until 2033, meaning that we will be paying interest (at 8.5%) on interest for the next 26 years.





Reforming our Pension System

- **Pay down the debt:**
 - Dramatically reduce interest payments by cutting the debt by more than 60%.
 - Immediately increase the State's funded ratio to 83%, nearly 34 years ahead of the 50-year funding schedule.
 - Payments will be more level funded and easier to assume in the budget.
- **Upfront cash:** The immediate cash infusion will come from:
 - \$10 billion lease of the Lottery
 - \$16 billion in Pension Obligation Bonds





Benefits of Leasing the Lottery

- **Private Operators Can Run the Lottery More Effectively**

- Private operators can raise capital for investment quickly in capital markets.
- Competition from other gaming is growing. Online Gaming will expand from a \$12 billion industry in 2005 to \$23 billion in 2010.



- **Now is the time to Lease**

- Indiana, Texas, and Maryland are all attempting to lease their lotteries. The first successful state will enjoy a significant "first mover" premium.
- Private equity and infrastructure funds are looking for stable investments.
- Debt financing remains very close to historical lows.



Capital Plan – Investing in Illinois' Future

- **Helping Kids Learn Education Plan** – \$1.5 billion over three years toward School Construction, School Maintenance, and a new, early childhood capital expansion program.



- **Energy Plan** – Invest over \$750 million to reduce our reliance on foreign energy resources and develop real alternatives using homegrown, renewable energy resources that will stabilize reduce energy prices, generate new investment and create thousands of jobs statewide.



Capital Plan – Investing in Illinois' Future

- **Jobs** – \$100 million for community-based and locally run micro-loan and community asset building programs. Funding will be focused on urban and rural communities that are idea rich, but capital poor.
- **Infrastructure** – Our plan focuses on maintaining capital authorization and appropriation to meet the State's basic needs, including maintenance items at agency facilities and programs considered core components of agency missions. We will make sure we have the resources available so that we can secure matching federal funds.





Illinois' Tax System is Out of Date

- Illinois's tax system is designed for "old economy" businesses and doesn't capture revenue from businesses that make up the majority of today's economy.
- **The corporate income tax hurts goods producers.** While the goods industry pays 56% of the Corporate Income Tax, they only make up 35% of the state's economy. The services industry makes up 65% of the state's economy, but pays only 44% of the Corporate Income Tax.

"There are whole industries today – enormously important and profitable industries – that weren't even dreamed of twenty-five years ago. The new economy has been described by many names: service, information, space age, diversified. But our tax structure remains tied to the past, to hard products and assets attached to the ground."

- Texas Tax Reform Commission Report, 2006



Big Business Avoids Taxes

- 37 of the Fortune 100 companies paid NO Illinois state income taxes in 2004. These companies averaged \$1.2 billion in sales in Illinois during that year.
- 12,521 of the top companies that do business in Illinois paid under \$2,000 in taxes in 2004. They averaged only \$151 in taxes per company, despite having sales of \$264 billion.
- The average Illinois taxpayer paid \$1,500 in Illinois Income Tax that year.

“The tax system must provide a level playing field that is essential for healthy, free market competition... Those who benefit from Texas’ resources and services must pay their share... The tax system must reflect the realities of a rapidly evolving economy.”

- *Texas Tax Reform Commission Report, 2006*



When Big Business Avoids Taxes, the Burden is Placed on Individuals & Small Business

- The state tax burden has been steadily shifting to individuals since the 1970s:
 - In the 1970s, individuals paid \$4.00 in income taxes for every dollar paid by corporations.
 - By 2004 the ratio jumped to \$7.12 for every dollar a corporation pays – an increase of 78%.
- Small businesses have comparatively fewer resources to exploit loopholes in the tax law.



Pressure is Mounting to Find New Revenues

- Hundreds of health, education, and citizen organizations across Illinois have recognized the need for the state to find new revenue.
- **Education** advocates have called for a 66% income tax increase and for expanding the sales tax to services to increase education funding.
- **Healthcare** advocates have called for new taxes on providers – doctors and hospitals – and insurers to increase access to affordable healthcare.
- New funding can not be put on the backs of individuals and **families**, they **are already being squeezed**.



Step 1: We Got Our House in Order

Since 2003, we have:

- **13,000 fewer state employees**, saving approximately \$900 million a year.
- **Closed corporate loopholes.**
- **Streamlined Government.** Eliminated 19 agencies and commissions, and consolidated state services.
- **Cut costs.** Eliminated state employee vacation “stockpiling”, increased employee pension contributions, cut average new General Revenue Fund growth by 30%, capped agency spending and reformed Medicaid.



Step 2: Evaluating Options

Other revenue options would hurt Illinois.

- **Income Tax Increase.** Increasing the Individual Income Tax increases the overall tax burden paid by Illinois workers and families.
- **Sales Tax Increase.** Expanding the Sales Tax to certain services could be economically disruptive, and would disproportionately impact low income and working families.
- **Corporate Income Tax Increase.** Corporate Income tax increases remain subject to loopholes and exclusions. Over half of all large business avoid Illinois taxation already. It would impose a high tax on a few industries rather than a lower tax on the Illinois economy as a whole.



Step 3: Reforming the Tax System

Gross Receipts Tax – Broad, Fair and Predictable

- A **Gross Receipts Tax** is a tax on all business receipts. It is applied at a very low rate to all businesses.
- **Small Businesses are exempt.** Small businesses that gross up to \$1 million annually will be exempt from the GRT.
- **Manufacturing, retail and wholesale companies** will pay an appropriately lower rate on their total revenues.
- **All other businesses**, such as service businesses, will pay a standard and evenly applied tax rate on their total revenues.

“The tax reforms were a major shift in Ohio. We no longer penalize people for investing in the state. We’ve turned to a more consumption-based tax, and that will be the kind of state people will want to operate in.”

- Ohio House Speaker Jon Husted (R- Kettering)



Gross Receipts Tax – Working in Other States

- **A sensible strategy for a new economy.** Ohio, Washington, Texas, Hawaii, and Delaware all use a form of the Gross Receipts Tax.
- **Ohio.** A state experiencing a steady decline of jobs and a struggling economy has experienced economic expansion since the GRT took effect in July 2005. One year later, Ohio's job growth rate was 12% higher than it was before the new tax. During this same period, the national job growth rate declined 3%.

"Unlike the old business taxes, this new [gross-receipts] tax does not penalize job creation and investment, and also encourages participation in the global marketplace."

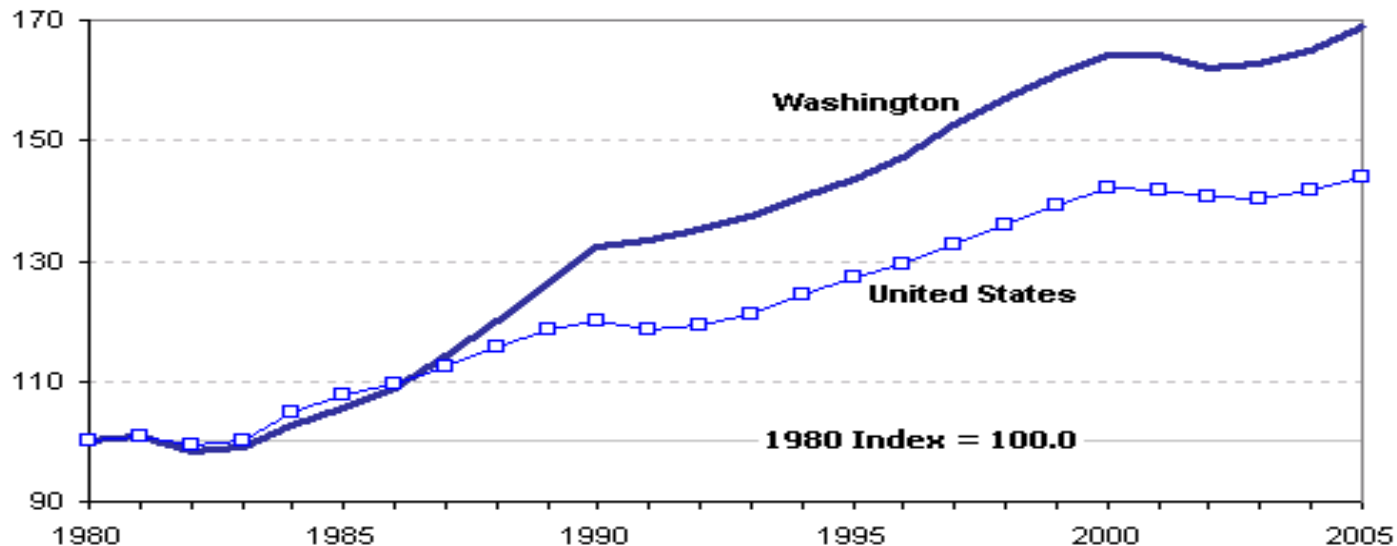
- *Ohio Business Roundtable, 2006*



Gross Receipts Tax and Employment

- **Washington.** Washington (GRT since 1935) outperformed the US economy from 1980-2000 and is a larger exporter than Illinois at half its size. The 2006 job growth rate in Washington State was sixth in the nation and double the national average.

Washington vs. United States Wage and Salary Employment 1980-2005





A Fair Solution for Illinois' Economy

- **Small Businesses are exempt.** Small businesses with gross revenues under \$1 million annually will be exempted from the GRT. This represents more than 75% of all businesses in Illinois.
- **Exports are exempt.**
- **The essentials are exempt** – Retail food and retail drugs, and Medicaid payments to doctors and hospitals.
- **Industries with Alternative Taxation – no impact.** Gaming revenue and insurance products will still be subject to their alternative tax.
- **Affiliated Companies will not be taxed.** Companies that conduct transactions with their affiliates will not be taxed on that activity.
- **Corporate Income Taxpayers:** Businesses will get a 100% credit for the corporate income taxes that they now pay. They won't be double taxed. The corporate income tax will be phased out.



“The Need is Clear. The Time is Now.”

- Every person, every family and every business in Illinois will have access to affordable healthcare.
- We will have a new and permanent funding source for education.
- Our pensions will be secure.
- We will secure the state’s long-term financial stability.
- And we will reform our tax system so that is fair for business, and works for families.



Find out more at www.illinois.gov.